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FISCAL IMPACT STATEMENT

LS 6025
BILL NUMBER: HB 1018

NOTE PREPARED: May 1, 2013
BILL AMENDED: Apr 1, 2013

SUBJECT: Financial Institutions Matters.

FIRST AUTHOR: Rep. Messmer
FIRST SPONSOR: Sen. Holdman

BILL STATUS: Enrolled

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill has the following provisions:

It repeals and removes unused provisions concerning a loan made by the State Board of Finance and purchased by the Board for Depositories for economic development projects.

The bill terminates the use of interest on the Public Deposit Insurance Fund (PDIF) for local pension relief. It requires Budget Committee review before money in the PDIF may be used for a purpose other than paying expenses for the administration of the fund, to invest, reinvest, and exchange specified investments, paying allowable operational expenses, paying claims on insured public deposits, and making deposits of uninvested funds.

The bill provides for 10-year payback of the $50 M loan made to the state General Fund from the PDIF. It annually appropriates $5 M from the state General Fund to the State Budget Agency (SBA) to make the annual loan payments for 2013 through 2022.

The bill reduces the financial institutions franchise tax rate over four years, from 8.5% for taxable years beginning before January 1, 2014, to 6.5% for taxable years beginning on or after January 1, 2017.

Effective Date: July 1, 2013.

Summary of NET State Impacts: A summary of impacts from provisions in the bill on state funds are specified in the table below.

Provision	FIT Rate Reduction	Eliminating PDIF Interest Transfer to Pension Relief Fund	Appropriation to Repay PDIF Loan	Close Out of Pension Distribution Fund	Loan Repayment/ Reduced Transfer Out
Fund Affected	**General Fund**	**Pension Relief Fund**	**General Fund**	**PDIF**	**PDIF**
FY 2013	Minimal	-	-	$0.2 M	$0.2 M
FY 2014	($2.4 M)	($0.8 M)	($5.0 M)		$5.8 M
FY 2015	($7.1 M)	($1.3 M)	($5.0 M)		$6.3 M
FY 2016	($11.8 M)	($1.2 M)	($5.0 M)		$6.2 M
FY 2017	($16.5 M)	($2.5 M)	($5.0 M)		$7.5 M
FY 2018	($18.8 M)	($5.8 M)	($5.0 M)		$10.8 M
FY 2019	($18.8 M)	($7.6 M)	($5.0 M)		$12.6 M
FY 2020	($18.8 M)	($7.6 M)	($5.0 M)		$12.6 M
FY 2021	($18.8 M)	($7.6 M)	($5.0 M)		$12.6 M
FY 2022	($18.8 M)	($7.6 M)	($5.0 M)		$12.6 M
FY 2023	($18.8 M)	($3.8 M)	($5.0 M)		$8.8 M
TOTAL	**($150.6 M)**	**($45.8 M)**	**($50.0 M)**	**$0.2 M**	**$96.0 M**

Explanation of State Expenditures: *PDIF Loan Repayment:* The bill makes a $5 M annual appropriation to the State Budget Agency (SBA) beginning in FY 2014 and ending in FY 2023 to repay a $50 M loan made from the PDIF to the state General Fund in 2004.This would increase state General Fund expenditures by $5 M annually beginning FY 2014.

An interest-free loan to the state General Fund was issued in 2004 from the PDIF. The maturity date of the loan has been extended by statute and the Board for Depositories to January 1, 2023.

Department of State Revenue (DOR): The DOR would incur some administrative expenses relating to the revision of tax forms, instructions, and computer programs to reflect the financial institutions tax (FIT) rate changes. The DOR's current level of resources should be sufficient to implement these changes.

Explanation of State Revenues: *Financial Institutions Tax (FIT) Rate Reduction:* The bill reduces the FIT rate from 8.5% to 6.5% over four years beginning in CY 2014. The table below summarizes the estimated annual revenue loss from the tax rate reductions.

Fiscal Year	Revenue Loss
2013	Minimal
2014	$2.4 M
2015	$7.1 M
2016	$11.8 M

2017	$16.5 M
2018	$18.8 M

The revenue loss could begin in FY 2013 as some financial institutions reduce estimated tax payments. However, the impact in FY 2013 should be minimal since approximately 85% of the financial institutions paying roughly 96% of the tax liability are calendar year filers. The table below summarizes the phase-in of the FIT rate reduction.

Calendar Year	Tax Rate
2013	8.5%
2014	8.0%
2015	7.5%
2016	7.0%
2017 and after	6.5%

PDIF Interest Transfer to Pension Relief Fund: The bill removes provisions requiring the annual payment of interest from the PDIF less certain expenses of the Board of Depository to the Pension Distribution Fund beginning in FY 2014. Thus, the last payment of interest earnings from the PDIF to the Pension Distribution Fund under the bill would be the December 2012 payment. This would result in a loss of revenue to the Pension Relief Fund of $0.8 M in FY 2014 and $1.3 M in FY 2015. The bill closes out the Pension Distribution Fund on June 30, 2013, and requires the estimated balance of $0.2 M in the fund to be transferred to the PDIF.

Background:

Financial Institutions Tax - Revenue from the FIT is distributed to local units and to the state General Fund. Local units are annually guaranteed revenue from the FIT. The amount guaranteed to a local unit is equal to the difference between: (1) the amount that was received by the taxing unit in 1989 under financial institutions taxes that were repealed and replaced by the FIT and (2) the amount received in the current year by the taxing unit from property taxes attributable to personal property of banks. FIT distributions to local units occur throughout the fiscal year until the guarantee is met. The local guarantee historically totals approximately $45 M. The estimate of state revenue loss assumes the residual FIT revenue distributed to the state General Fund will total $35 M annually, which is the historical average.

Once the rate reduction is fully phased in, annual FIT revenue could be at a level where in recessionary periods transfers from the state General Fund to local units might be required to pay the local guaranteed amounts. During recent economic downturns, FIT revenue has declined by an average of almost 21% from the historical average of about $80 M per year. Once the rate reduction is fully phased in, it is estimated that annual revenue could potentially total about $61.1 M. A cyclical revenue decline of 21% could potentially reduce this total down to about $48.5 M, just above the amount required to pay the local guarantee.

PDIF Interest Transfer to Pension Relief Fund- Under current law, each year from 2001 through 2021, the interest from the PDIF less certain expenses of the Board for Depositories and of the Indiana Education Savings Authority that were not paid by other sources, is transferred to the Pension Distribution Fund. The Auditor of State, from 2002 until 2022, distributes two equal installment payments from the Pension Distribution Fund to the Indiana Public Retirement System for deposit into the Pension Relief Fund to help municipalities meet their benefit payment obligations under the pre-1977 retirement plans. From FY 2004 to FY 2012, the interest transfers net of expenses have averaged $7.8 M annually. However, in FY 2011 the transfer was $2.4 M, and in FY 2012 it was $0.5 M.

Explanation of Local Expenditures:

Explanation of Local Revenues: *Financial Institutions Tax Rate Reduction:* [See *Explanation of State Revenues.*]

State Agencies Affected: Board for Depositories; Board of Finance; State Budget Agency; State Department of Revenue.

Local Agencies Affected: Pension Relief Fund, local law enforcement agencies.

Information Sources: Auditor of State, *2012 Comprehensive Annual Financial Report*, accessed at http://www.in.gov/auditor/2530.htm; *Indiana Board for Depositories Financial Statements*, Years Ended June 30, 2012 and 2011 and Years Ended June 30, 2011 and 2010; Indiana Board for Depositories, *Semi-Annual Report to the State Budget Committee*, December 4, 2012 and June 4, 2012 accessed at http://www.in.gov/tos/deposit/2374.htm . OFMA Income Tax databases, 2008.

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